

March 24, 1959

MEMORANDUM

TO: Governor Albert D. Rosellini
FROM: Donaho and Associates
SUBJECT: Organization of the Central Budget Agency.

Attached is an organization chart we propose be used as a guide in staffing the Central Budget Agency. Also attached is a proposed salary plan for the Budget Agency, showing comparable position classes which were used as a guide in developing the plan for the Agency.

We view as particularly important the need for immediately proceeding to staff the new organization -- so that by July 1, 1959, the key positions in the new organization will be filled. During the next biennium, the staffing requirements should be completed.

Some minor changes have been made in the organization chart as compared with that which was presented to you on October 23, 1958. These changes involve the addition of a few more positions than were originally proposed in October -- specifically those of a "junior technician" character, to permit these positions to serve as a training device for promotion in the organization.

While the biennial expense of the Budget Agency will exceed \$636,000, the actual expenditures during 1959-1961 will be somewhat less than this amount since the Budget Agency will not be completely staffed on July 1, 1959.

The proposed salary rates for positions in the Central Budget Agency were developed on the basis of the latest information available to us regarding possible legislative action affecting State salary scales for the next biennium, that is, approximately one-half of the increases that were proposed under Plan A. (If a different salary adjustment plan results from legislative action, changes in our proposed salary rates would need to be made).

Assuming that the Legislature acts as indicated above, the salary rates we are proposing will be both realistic and sufficiently high to attract competent personnel. It is essential that the need for competent manpower be kept consistently in mind. In this connection, we urge that the salary of the Budget Director be increased at the earliest possible time to \$12,000 per year -- the maximum permitted under current law. Later, this salary should be increased to a minimum of \$15,000 per year when the statutory salary rate currently in effect is repealed.

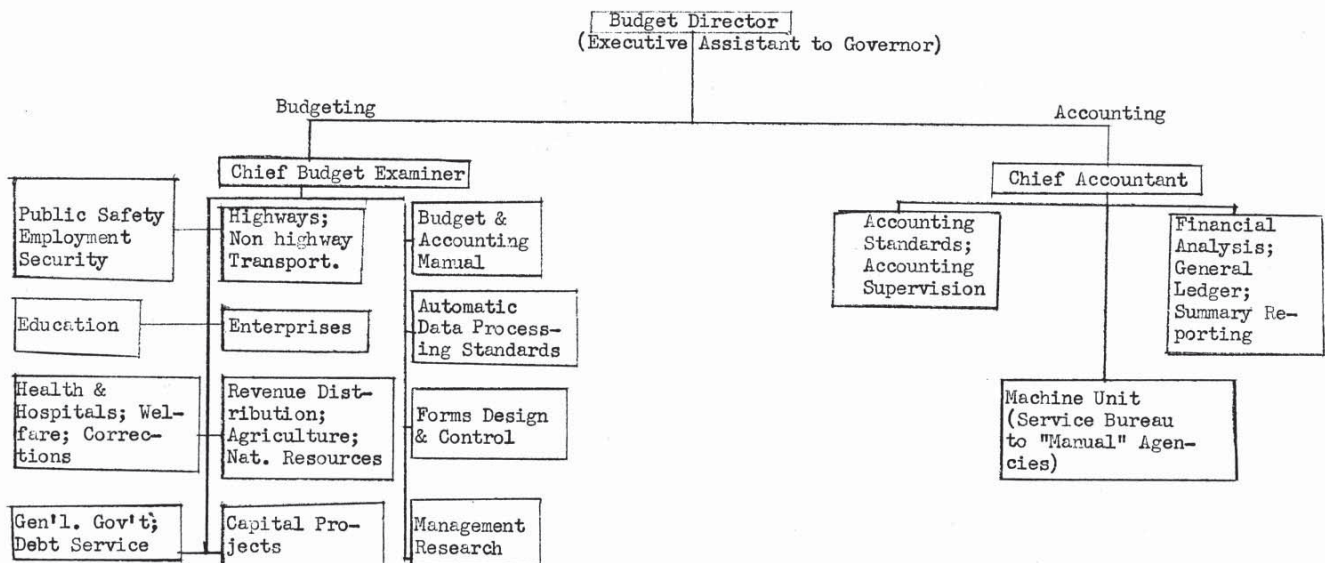
ROLE OF CENTRAL BUDGET AGENCY --

CREATED BY BUDGET AND ACCOUNTING ACT (CHAPTER 328, LAWS OF 1959)

GOVERNOR'S PRINCIPAL STAFF ARM IN FISCAL AND MANAGEMENT AFFAIRS:
RESPONSIBLE FOR DEVELOPING --

1. BASIS FOR ORDERLY BUDGET PLANNING AND BUDGET ADMINISTRATION
2. ACCOUNTING STANDARDS: ENSURING THAT AGENCIES COMPLY WITH THESE STANDARDS
3. COMPLETE FINANCIAL AND WORK REPORTING SYSTEMS --
 - . BUILT AROUND AGENCY PROGRAMS
 - . SHOWING AGENCY PERFORMANCE UNDER AGENCY PROGRAMS
4. THROUGH BUDGET, ACCOUNTING AND REPORTING PROCESS
 - . SECURING EFFICIENT, ECONOMICAL MANAGEMENT OF STATE GOVERNMENT
 - . ESTABLISHING VITAL LINK BETWEEN BUDGETING AND ADMINISTRATION
5. BETTER ORGANIZATION AND METHODS

Organization of Central Budget Agency



MAJOR RESPONSIBILITIES OF BUDGET EXAMINERS AND ACCOUNTANTS -- UNDER
BUDGET DIRECTOR

GENERALLY

TO SERVE AS GOVERNOR'S AGENTS IN ---

- CARRYING OUT HIS POLICIES
- ADVISING HIM OF PROBLEMS AND ISSUES IN AGENCY MANAGEMENT:
PROPOSING SOLUTIONS
- REPRESENTING HIS INTEREST IN DAY-TO-DAY, EFFICIENT CONDUCT OF
STATE GOVERNMENT
- MEETING GOVERNOR'S NEED FOR ADEQUATE STAFF RESOURCES IN RESOLVING
PROBLEMS IN ALL FUNCTIONAL AREAS OF STATE GOVERNMENT
- INFORMING THE LEGISLATURE AND THE PUBLIC REGARDING SIGNIFICANT
DEVELOPMENTS IN THE STATE'S FISCAL AFFAIRS

TWO PRINCIPAL DIVISIONS IN CENTRAL BUDGET AGENCY:

BUDGET DIVISION; ACCOUNTING DIVISION

UNDER CHIEF OF EACH DIVISION --

1. BUDGET DIVISION: BUDGET EXAMINERS

- IN DESIGNATED FUNCTIONAL AREAS (PUBLIC SAFETY, HIGHWAYS, ETC.): CLARIFYING ISSUES; RESOLVING PROBLEMS
- MAKING CONTINUING STUDIES OR SPECIAL ANALYSES FOR PURPOSES OF ESTABLISHING ORDERLY, ECONOMICAL AGENCY MANAGEMENT PRACTICES
- ASSISTING IN IMPROVING INTER-AGENCY COORDINATION
- DEVELOPING STATEWIDE STANDARDS: PRESCRIBING METHODS FOR EFFICIENT USE OF MANPOWER AND MATERIALS
- THROUGH CURRENTLY MAINTAINED BUDGET AND ACCOUNTING MANUAL --
 - FURNISHING COMPLETE POLICIES AND PROCEDURES STATEMENT TO GUIDE AGENCIES IN CONDUCT OF DAY-TO-DAY FISCAL AFFAIRS
 - MANUAL IS START OF COMPLETE ADMINISTRATIVE CODE FOR EXECUTIVE BRANCH
- ASSISTING AGENCIES IN MEETING CHALLENGES AND OPPORTUNITIES OF "AGE OF AUTOMATION"
 - ANALYSES OF MACHINE PROCEDURES: PRESCRIBING STANDARDS
 - PLANNING NOW FOR CENTRAL COMPUTER TO BE ULTIMATELY ESTABLISHED IN CENTRAL BUDGET AGENCY
- DEVELOPING FORMS STANDARDIZATION AND FORMS CONTROL PROGRAM

2. ACCOUNTING DIVISION: ACCOUNTANTS

- WILL ENSURE THAT AGENCIES ARE COMPLYING WITH STANDARDS LAID DOWN IN BUDGET AND ACCOUNTING MANUAL.
- SUPERVISION AGENCY ACCOUNTING AND REPORTING SYSTEMS
- TRAINING AGENCY PERSONNEL IN MAINTAINING COMPLETE FINANCIAL AND WORK REPORTING SYSTEMS

ENSURING ACCOUNTABILITY AND AUDITABILITY OF ALL AGENCY
FINANCIAL AFFAIRS

ESTABLISHING THE LINK BETWEEN BUDGETARY PROGRAM ALLOTMENTS AND
AGENCY PERFORMANCE UNDER THESE PROGRAMS

- COMPILING, FROM AGENCY REPORTS, DATA TO ESTABLISH THE CENTRAL BOOKS
OF ACCOUNT, INCLUDING

GENERAL LEDGER

STATUS OF ALLOTMENTS AND FUNDS

ANALYSES OF REVENUES AND EXPENDITURES

- DEVELOPING SUMMARY REPORTS AND ANALYSES

ADVISING GOVERNOR AND OTHERS OF SIGNIFICANT DEVELOPMENTS IN
STATE FISCAL AFFAIRS: TIMELY, CONCISE REPORTS

- MACHINE UNIT TO FUNCTION AS "SERVICE BUREAU" FOR MANUAL AGENCIES

CERTAIN RECORDS TO BE DEVELOPED

PAYROLL SERVICES

PUNCH CARD WARRANT

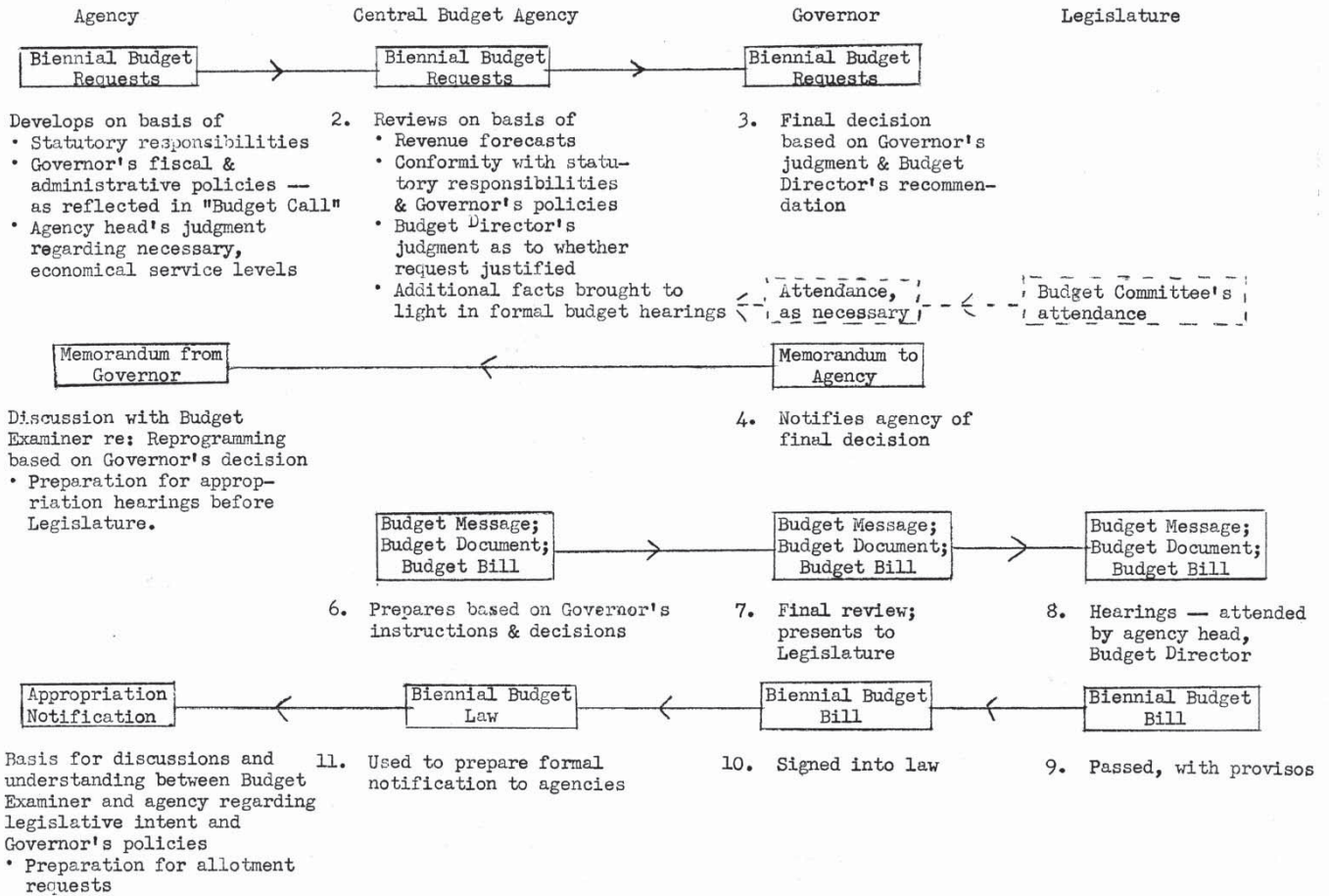
BUDGET PROCESS CONSISTS OF FOLLOWING MAJOR ELEMENTS

BUDGET MAKING AND ADOPTION

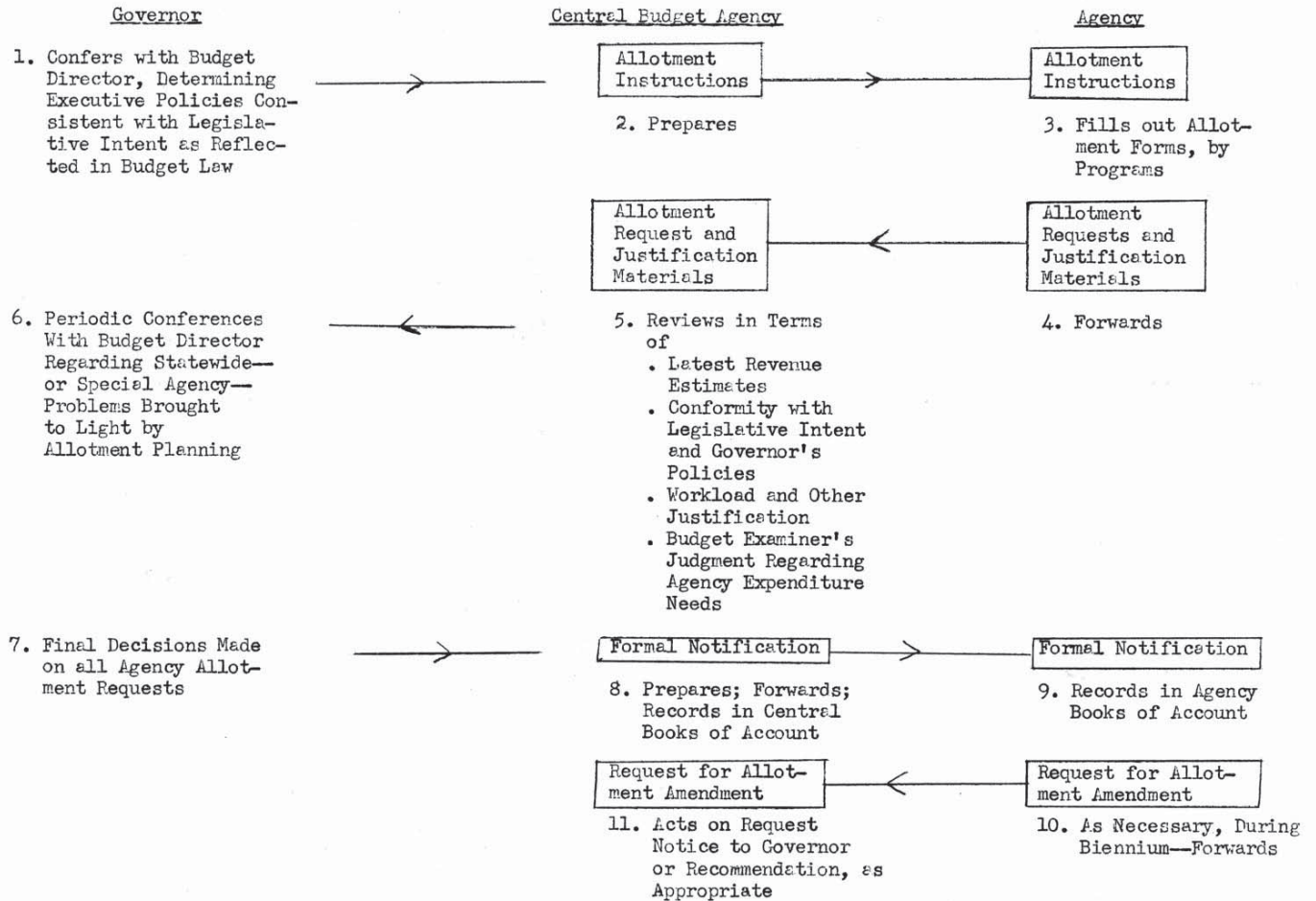
BUDGET EXECUTION, INCLUDING

- ALLOTMENTS
- ACCOUNTING
- REPORTING
- FOLLOW-UP

BUDGET PROCESS — PLANNING & ADOPTION



Budget Process - Allotments



PROPOSED DUTIES, ORGANIZATION AND STAFFING
OF A BUDGET BUREAU
OF THE OFFICE OF THE GOVERNOR
STATE OF WASHINGTON

Introduction

The development and installation of a program budget and supporting accounting system will not of itself give to the State of Washington a budget process which will strengthen the ability of the Governor to manage the State nor the Legislature the means to fix policy. Any system, no matter how well designed, must operate within a framework of organization and personnel. These provide the meat and muscle for the system skeleton. Only thus can the administrative anatomy produce the desired results.

The time is at hand for the spelling out of the goals and objectives of budget organization so that steps taken now to prepare the central budget agency for the forthcoming budget season will be consonant with the ultimate structure. This memorandum is aimed at setting forth a proposed organization, contrasting it with the present and making certain action recommendations. The character of the proposed organization will have a vital bearing on the ultimate effectiveness and usefulness of the State's executive budget processes. We are giving primary emphasis at this time to the organization and staff needed to further one set of our project's essential goals, namely those dealing with the need for an increased level of effectiveness in formulation, review and administration of the budget. At the same time we are setting forth certain immediate steps effecting the accounting and budget processes which are possible of attainment now and which would benefit the State's fiscal management if placed in effect.

Responsibilities of Present Budget Division.

At present the processes of executive budget planning and making are primarily characterized by routineness and lack of proper staff resources. The budgets are received and checked for arithmetic accuracy by the Budget Section. The Director then reviews each budget and makes his recommendations to the Governor. After the Governor acts, the Budget Director turns over final copy to the Budget Section for transmission to the printer.

During Legislative review of the budget the Director provides such assistance to Legislative Committees and the Governor as he is called upon to do, analyzes fiscal legislation and assists the Governor in the veto of appropriations.

After the appropriation bills become law, the final responsibility of the Budget Division is exercised as regards budget formulation: agencies are notified of the amounts that were appropriated and the code number of the appropriation and Fund. The allotment process is now a responsibility of the Pre-Audit Section and is detailed in Exhibit A. It should be a responsibility of the proposed Budget Division.

In the process of budget making and allotment there is no field study or hearing on agency needs. Furthermore, there is no continuing review of agency organization, methods, practices, the manner in which budgets are carried out or recommendations for effecting economies. There is almost a complete lack of budget policy, standard business practices or interagency coordination. The budgets are not built within a framework of well-developed short or long range fiscal policy. Above all, there is no trained staff to undertake these tasks. The staff resources of the Budget Section are comprised of a Section Head, Budget Technician (position now vacant) and two account clerks. In the off-budget season the Budget Section devotes

its time mainly to the development of monthly reports on revenues and expenditures for the Budget Director. A copy of these in detail is forwarded to the Governor without accompanying analysis or evaluation.

Exhibit A included herein summarizes the process of budget preparation and the work of the Budget Section. The work of the Budget Office in pre-audit and accounting is treated later in this report.

Responsibilities of Proposed Budget Division.

Some of the principal elements involved in an effective and revitalized State Budget process are contained in outlines of the capital and operating budget processes already developed for this project. These indicate in a sequential manner both the principal steps and inter-agency relationships which should exist in budgetary administration.

We are convinced that the central budget agency for the State of Washington should consist of two core divisions - A Budget Division and an Accounting Division. Research activities in fiscal economics and inter-agency organization and methods which might ultimately deserve division status should initially be performed within the Budget Division. Further, the entire agency should be renamed as the Budget Bureau, and made an integral segment of the Office of the Governor. Included herein as Exhibit C is a chart showing the internal organization of the proposed Budget Division. Inherent in the development of an improved budget process is the proper staffing of the proposed Budget Division with a cadre of qualified budget examiners, each with primary responsibility for a group of functionally related agencies.

The clearest basis for understanding the work, methods and objectives of the Budget Division is found in one key factor: the Division, under the Director of Budget, should serve as a staff arm of the Governor, aiding him in his responsibility as "general manager" of the Executive Branch. To enable the Governor to carry out this responsibility, the examiners of the Budget Division should:

1. Keep currently and thoroughly informed as to the objectives, scope, content and administration of the programs of the departments or agencies to which they are assigned.
2. Evaluate budget requests of their respective agencies in the light of current, complete and correct information as to the need (or adequacy) of the funds being requested to conduct agency activities.
3. Recommend, through the Budget Director, to the Governor the funds for their respective agencies that should be requested of the Legislature.
4. Review and make recommendations concerning proposed legislation in terms of its fiscal and administrative effect upon the agencies involved and the State as a whole.
5. Maintaining continuing contact with their agencies, reviewing and approving allotment requests; analyzing and reporting on agency performance and financial reports.
6. Through the Budget Director, keep the Governor informed regarding agency programs and special developments.

7. Work with agency management and with other members of the central Budget agency in installing organization and methods improvements, in identifying problem areas and in controlling and cutting costs.

8. Aid coordination of the work of the various State agencies to achieve common objectives.

9. Follow-up on the effectiveness of agency long range planning and the development of long range capital programming and fiscal planning for the State, revenue estimating and economic forecasting.

Other Budget Division examiner projects could be given here but the foregoing illustrate the breadth of the budget examination function as an essential element in effective, executive budgeting. This organization, however, can be effective only to the degree that (a) the Governor supports its purposes and objectives and (b) it is staffed with qualified and able individuals.

Organization and Staffing of the Budget Division

The entire agency should receive leadership and direction from a well selected Budget Director, skilled in general management, who should operate out of the Governor's Office as his principal aid for State administration. This individual should receive a salary not less than that paid the best compensated of the line department heads. In the Budget Bureau he should have two well qualified deputies; one a Chief Budget Examiner, the other, a Chief Accountant to head the respective divisions. The Chief Budget Examiner should serve as Director in his absence and receive a salary of from ten to twelve thousand dollars. Reporting to him would be the principal budget examiners in the functional areas. These should receive from seven to nine thousand dollars a year.

1. Qualification of Budget Examiners

No hard and fast rule should be set up to fix the minimum qualifications of the budget examiners. Individuals trained in public administration with experience in government, preferably in some phase of budget administration should be selected. Above all those selected should have alert, analytical minds, imagination, ability to get along with others and capacity for written and oral expression.

2. Number required.

Currently, the State has assigned two well qualified individuals to work with our Consultants. Throughout the project this team relationship should continue. There is an immediate need for an additional examiner now to work on the development of the capital budget and program. During the summer of 1958 two more should be assigned to aid in development of the operating budget. Upon this group will fall primary responsibility for development of the State's new budget working with the Budget Director and the personnel of the present Budget Section. In addition assistance must currently be drawn from the Tax Commission and the Commerce Department for revenue and economic forecasting to develop proper budget policy. Ultimately, this effort should be coordinated by the Budget Bureau with its own resources.

We conceive of the new Budget Division to ultimately have the following units:

1. Budget Operations, to aid in processing the budget, editing, report processing, forms design and clerical routines. This unit should be headed by a supervisor assisted by an account clerk and two typists.

2. Public Safety - Principal budget examiner.
3. Education - A Principal with one or two examiners of lesser grade.
4. General Government - Principal budget examiner.
5. Natural Resources " " "
6. Health, Welfare and Institutions - Principal budget examiner and one examiner of lesser grade.
7. Public Works and Highways - Principal budget examiner and one or two examiners of lesser grade.
8. Enterprises - Principal budget examiner.

Responsibility for the capital program and for economic forecasting (temporarily) would rest in the Public Works unit.

It would be desirable if the staffing of this Division could be easily achieved by assignment and training of personnel currently employed in the present budget agency. Unfortunately, this cannot be easily done because:

1. The work of the present staff of the Pre-Audit Division cannot be abruptly abandoned during this biennium. This subject will be discussed further in this report.
2. Few of the present employees appear qualified for the Budget Division. Two or three might qualify for subordinate positions under the Principals of some of the larger examining units. There are personnel in the operating agencies, however, who might well qualify for the Principal positions.

Budget Division Staffing Steps.

In view of the above we recommend:

1. That all selections be made now on the basis of ultimate placement in the Budget Division.
2. The immediate selection and assignment of a person to work on the capital budget and program.
3. Selection and assignment by June 15, of two more persons for the budget formulation period.
4. Completion of selection and assignment of all principal budget examiners by April 1, 1959.

The Accounting Division.

The central expenditure accounting responsibilities of the State are now shared by the State Auditor and the Pre-Audit Section under the Director of Budget. Regardless of the ultimate decision regarding the duties of the Auditor there needs to be a strong accounting unit at the disposal of the Governor to keep the accounting of the State an effective tool of management. We, therefore, favor an Accounting Division, under the Director of Budget, headed by a qualified Chief Accountant. The principal duty of this division, other than the keeping of appropriation controls, should be its leadership in the field of departmental accounting to aid the agencies in developing better accounting systems and control, including cost

accounting, and in consultation with the Budget Division the prescription of accounting policies and regulations. Furthermore it is the duty of such a unit to produce effective, consolidated reports on all revenues and expenditures. We concur, in the recent Morey-Jenner report in Illinois which stated:

"Careful attention should be given to decentralization of fiscal, procedural and administrative operations so as to expedite the business of the State and avoid the bottlenecks, unnecessary expense, unwieldiness and inefficiency that always attend over-centralization."

Of one thing we are convinced, the present pre-audit system is a duplicatory and giant bottleneck which adds nothing to the better management of the State. Out of this useless effort comes nothing but inter-agency strife. It so diverts attention from the important issues and expenditures that the principal aim of the operating units is to escape this control - an effort in which they are eminently successful.

It is our desire to test the elimination of pre-audit with one selected agency in the next few months. We propose to suggest for this agency the substitution of a new work program and allotment scheme based upon the programs we have identified, the keeping of encumbrances and pre-audit in the agency and the rendering of monthly expenditure reports by the agency to the Budget office. Once again, we refer to the Morey-Jenner report which is equally applicable to Washington when it says: "Further, it is contrary to fact to assume there is, and unrealistic to assume that there can be, an efficient central pre-audit of all State expenditures. ***** The most efficient location for the preaudit is in the agency making the expenditure. In the final analysis, it is with each individual agency that financial accountability must rest."

Exhibit B, appended to this report, discusses in some detail the activities of the Pre-Audit Section. It will be useful to summarize here the findings discussed in that exhibit.

1. The greater part of the time spent by the Pre-Audit staff is consumed in the detailed review of an overwhelming volume of obligation documents, including requisitions, purchase orders and vouchers. A final work count has not yet been completed as to the number of documents that are processed by the Pre-Audit staff. It is conservatively estimated, however, that upwards of 500,000 such documents are received annually. This is 1655 documents per working day. This one statistic runs directly counter to any belief that a truly effective, qualitative audit can be made in the face of this workload.

2. Despite the detailed control over expenditures that might seem to exist under the pre-audit law, there are significant areas of expenditure that are wholly beyond the jurisdiction of the Budget office. During the present biennium, approximately \$2 billion will be spent by all agencies, whether from local or State funds. The jurisdiction of the Budget Office, in terms of pre-auditing, covers \$937.5 million, or less than 50% of the \$2 billion.

3. The work of Pre-Audit and that of the State Auditor duplicate each other at a number of stages exactly, particularly with regard to voucher review. In both offices, determinations are made as to the legality, account classification and availability of funds. In cases where the voucher exceeds the amount of the purchase order, Pre-Audit will check the arithmetic accuracy of the voucher; the Auditor's Office checks the arithmetic accuracy of all vouchers.

Further, many departments and in particular the larger ones have their own pre-audit systems; in the course of events, these departments have felt it desirable for management control purposes to maintain such systems.

Costs.

Until the completion of our accounting survey involving also payroll and reporting and revenue accounting no firm over-all cost figures for the new budget agency can be developed. The proposed changes in the Budget Division would add between \$132,000 and \$180,000 to the cost of the present budget effort as constituted in the Budget Section. This cost would more than be offset by a reduction in the Pre-Audit Section but these cannot be considered absolute until the duties of the proposed Accounting Division and the Auditor and Treasurer's office are decided upon. Over \$250,000 probably will be spent for salaries in the Budget Office during the current biennium. It should be noted, however, that the Budget Office's 1957-59 appropriation for salaries is \$348,286. Based on the probable salaries expenditure, approximately \$100,000 will revert at the end of this biennium. The aim is to put this sum to effective use.